

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Leslie County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$12,949 from the prior year, resulting in excess fees of \$12,949 as of December 31, 2007. Revenues decreased by \$116,790 from the prior year and expenditures decreased by \$133,477.

Report Comments:

- The Sheriff Should Have Complied With The Leslie County Fiscal Court Code Of Ethics
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Leslie County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2009 on our consideration of the Leslie County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Complied With The Leslie County Fiscal Court Code Of Ethics
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Leslie County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 11, 2009

LESLIE COUNTY
PAUL HOWARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal Grants		\$	6,671
State Grants			2,500
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			4,124
State Fees For Services:			
Finance and Administration Cabinet	\$	8,694	
Cabinet for Health and Family Services		860	
Telecommunications Tax		<u>3,450</u>	13,004
Circuit Court Clerk:			
Sheriff Security Service		326	
Fines and Fees Collected		900	
Court Ordered Payments		<u>150</u>	1,376
Fiscal Court:			
Election Commissioner		130	
Contribution for Sheriff's Salary		<u>20,302</u>	20,432
County Clerk - Delinquent Taxes			2,125
Commission On Taxes Collected			193,191
Fees Collected For Services:			
Fees Collected For Services		1,725	
Auto Inspections		1,380	
Accident and Police Reports		174	
Serving Papers		22,500	
Carrying Concealed Deadly Weapon Permits		1,430	
Mental Transport		<u>1,797</u>	29,006
Other:			
Forfeiture		256	
Bond Reimbursement		173	
Add-On Fees Collected On Taxes		<u>22,016</u>	22,445

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Revenues (Continued)

Interest Earned	\$ 669
Total Revenues	295,543

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputy's Gross Salaries	\$ 115,438
Other Gross Salaries	14,044
Overtime Gross Salaries	7,901
Officer KLEFPF	4,641

Contracted Services	1,007
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Materials and Supplies-

Office Materials and Supplies	5,352
Uniforms	7,668
Equipment	3,645
Telephone	2,130
Refund	2,253

Auto Expense-

Vehicle Maintenance & Repair	8,833
Vehicle Expense	103

Other Charges-

Dues	1,053
Postage	6,071
Officer Training	1,418
Bank Charges	109
	\$ 181,666

Capital Outlay-

Office Equipment	9,538
Vehicles	25,352
	34,890

Total Expenditures	216,556
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The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Net Revenues		\$	78,987	
Less: Statutory Maximum			<u>66,038</u>	
Excess Fees Due County				12,949
Payments to Fiscal Court:				
January 31, 2008	\$	10,351		
December 9, 2008		<u>1,043</u>		<u>11,394</u>
Balance Due Fiscal Court			\$	<u><u>1,555</u></u>

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Leslie County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Federal Forfeiture Account

The Sheriff received \$13,219 from the Department of Justice during 2007 calendar year. These funds include shared cash, proceeds, and property received from the Drug Enforcement Administration (DEA), Federal Bureau of Investigation (FBI), U.S. Attorney's Office, U.S. Postal Inspection Service, Food and Drug Administration, and U.S. Department of Agriculture. The Department of Justice permits state and local law enforcement agencies to use up to fifteen (15) percent of shared funds received during the last two (2) fiscal years to support drug abuse treatment, drug and crime prevention education, housing and job skills programs, or other nonprofit community-based programs or activities, which are formally approved by the chief law enforcement officer as being supportive of and consistent with a law enforcement effort, policy, and or initiative. The Sheriff did not disburse any funds during 2007. The ending balance was \$13,219 as of December 31, 2007.

Note 5. U.S. Army Corp of Engineers

The Leslie County Sheriff's Department and the Leslie County Fiscal Court entered into a grant agreement with the U.S. Army Corp of Engineers for the period beginning May 1, 2007 and ending September 30, 2007. The purpose of the grant was to provide law enforcement services at Buckhorn Lake. The Sheriff received \$6,671 during the calendar year for salary reimbursements.

Note 6. Highway Safety Program

The Leslie County Sheriff's Office entered into an agreement with the Governor's Highway Safety Program for a statewide safety belt enforcement campaign, "Buckle up Kentucky: It's The Law & It's Enforced." The purpose of the funds was to increase awareness of the seat belt law. The enforcement campaign was slated to begin May 21 through June 3, 2007. The Sheriff received \$2,500 in reimbursement for salaries.

Note 7. Donation

The Sheriff received a donation from a nongovernmental agency for \$500 during 2007. The Sheriff deposited these funds into his official fee account and did not expend any funds during the year. The ending balance was \$500 as of December 31, 2007.

Note 8. Receivable

Telecommunications tax totaling \$1,025 was erroneously deposited into the former Sheriff's bank account. The Sheriff will need to receive these funds from the former Sheriff before he will be able to pay the county the excess fees due.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Leslie County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated August 11, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Have Complied With The Leslie County Fiscal Court Code Of Ethics

The Leslie County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 11, 2009

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Complied With The Leslie County Fiscal Court Code Of Ethics

The Sheriff's wife was an employee of the Sheriff's office during the calendar year and earned wages of \$6,960. According to the Leslie County Fiscal Court Code of Ethics, Section IV, dated December 20, 1994, a spouse, child, person claimed by the individual or individual's spouse as a dependent for tax purposes, brother or sister, brothers-in-law or sisters-in-law or parents of a county officer shall not be initially employed or appointed to a position in a governmental agency in the same county in which the officer serves. We recommend the Sheriff request an opinion from the Leslie County Fiscal Court Board of Ethics to determine if the Sheriff violated the ethics code.

Sheriff's Response: We will consult the County Attorney on this matter.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

A lack of adequate segregation of duties exists over accounting functions in the Sheriff's office. One employee is responsible for posting daily checkout sheets to the receipts ledger, posting disbursements to the disbursements ledger, preparing the monthly bank reconciliations, and preparing quarterly reports.

A segregation of duties over the accounting functions mentioned above, or implementation of compensating controls when limited by the number of office staff, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Because of the lack of oversight over the accounting process, only one signature was required on checks. Also, this lack of oversight could result in the misappropriation of assets and/or inaccurate financial reporting which could occur and not be detected.

To adequately protect against the misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involved such as posting cash receipts to the ledger, posting disbursements to the ledger, preparing monthly bank reconciliations, and preparing quarterly reports. The Sheriff should also require two (2) signatures on checks. If due to a limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2007
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

The following are examples of controls the Sheriff could implement.

- The Sheriff could periodically recount and deposit cash receipts. This could be documented by initialing the daily check out sheet and deposit ticket.
- The Sheriff could periodically compare the bank deposit to the daily to the daily checkout sheet. This could be documented by initialing the bank deposit and daily checkout sheet.
- All checks could have two (2) signatures, with one being the Sheriff.
- The Sheriff could review the bank reconciliation and compare to the balance in the checkbook. Any differences could be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff could receive the bank statements unopened, and review the bank statements for any unusual items prior to giving them to the person responsible for reconciliations.

Sheriff's Response: We have implemented compensating control of duties as we are a very small office and cannot hire additional staff for segregation of duties.

